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FISCAL IMPACT STATEMENT

LS 7419

BILL NUMBER: HB 1546

NOTE PREPARED: Jan 16, 2009

BILL AMENDED:

SUBJECT: PERF Cost-of-Living Adjustment.

FIRST AUTHOR: Rep. Niezgodski

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides for a cost-of-living adjustment (COLA) payable after December 31, 2009, for members (or the survivors or beneficiaries of members) of the Public Employees' Retirement Fund (PERF).

Effective Date: July 1, 2009.

Explanation of State Expenditures: The bill provides a 1.5 % COLA to members of PERF, payable after December 31, 2009. Current statute has no provision for a COLA in 2010. Consequently, the fiscal impact of the 2010 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$23.6 M. This represents an additional annual funding requirement of about \$0.91 M for FY 2009 and \$1.82 M in fiscal years thereafter, representing approximately a 0.11% increase in annual funding as a percent of payroll).

Although a COLA for 2010 is not provided in current statute, PERF is currently calculating the contribution requirement for the state in anticipation of passage of a 1.5% COLA for CY 2010. Consequently, the budgetary impact from the 2010 adjustment provided in this bill under the COLA assumptions used in the actuarial calculations and contribution determination is estimated to result in no additional unfunded accrued liability or annual funding requirement over what is already budgeted.

[Note: All estimates for the state impact include, in addition to the cost associated with PERF members, the cost of increases associated with the State Excise Police, Gaming Agent, Gaming Control Officers, and Conservation Enforcement Officers' Retirement Fund and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.]

Explanation of State Revenues:

Explanation of Local Expenditures: The bill provides a 1.5% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2009. Current statute has no provision for a COLA in CY 2010. Consequently, the fiscal impact of the 2010 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$32.3 M. This would result in an additional annual funding requirement of about \$2.49 M in CY 2010 and years thereafter (representing approximately 0.09 % of payroll) over what is provided for in current statute.

Although a COLA for 2010 is not provided in current statute, PERF is currently calculating the contribution requirement for employers in anticipation of passage of a 1.5% COLA for CY 2010. Consequently, the budgetary impact from the 2010 adjustment provided in this bill under the COLA assumptions used in the actuarial calculations and contribution determinations is estimated to result in no additional unfunded accrued liability or annual funding requirement.

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected: Those units with members in PERF.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for PERF, 317- 576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Actuarial Assumptions: Factors used by the actuary in forecasting uncertain future events affecting pension cost. They involve such things as interest and investment earnings, inflation, unemployment, mortality rates, and retirement patterns.

Cost-of-Living Adjustment: An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).